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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000449

NOFORN
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DEPARTMENT FOR NEA/FO; NEA/ARP/BMCGOVERN

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TAGS: ECON ENRG PREL AE

SUBJECT: UAE: SHARJAH'S POWER PROBLEMS

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CLASSIFIED BY: Justin Siberell, Consul General, Consulate General Dubai, UAE.

REASON: 1.4 (b), (d)

¶1. (C) Summary: Sharjah, the UAE's third most populous Emirate, has been suffering since early August ongoing power outages ranging from several hours to several days at a time. The Sharjah Electricity and Water Authority (SEWA) attributes the outages to high summer demand, but gas shortages and an inability to purchase sufficient quantities of diesel are also key factors in the crisis. Some Sharjah residents claim to be considering moves to neighboring Dubai, and the outages have prompted some small-scale labor protests. In part to stem demand, SEWA raised its rates nearly 50 percent in early October, though even with this increase rates remain well below a true market price. A personal appeal from the Ruler of Sharjah to the UAE President for assistance reportedly succeeded in encouraging cashed-strapped distributors to resume supplying diesel to Sharjah. The outages have raised once again the lack of a functioning national electrical grid in the UAE and the continued reliance of the UAE's smaller emirates upon the generosity of Abu Dhabi to fund basic services. End Summary.

¶2. (C) Sharjah, like Dubai, has its own power grid independent of Abu Dhabi. Sharjah's power plants operate natural gas/diesel generators. There is an overreliance on diesel, however, because Sharjah lacks sufficient access to gas. Sharjah's "installed capacity," the potential output when all generators are operating at peak performance, is 2500 megawatts. Although average demand, is 1800 megawatts, blackouts occur because SEWA lacks sufficient reserve capacity to absorb routine generator maintenance.

¶3. (C) Sharjah Electricity and Water Authority relies on General Electric power generators to provide power to its 750,000 customers. Poloff met with John Lancia, GE's Director for Public Policy and Strategic Planning, in late September to get his views on the root causes of the severe blackouts. Lancia believes a lack of funding for new power projects predating the current economic crisis is contributing to the current power failures. He said even if a decision were taken immediately to address SEWA's inability to provide power consistently during the hottest months, it would take at least 18 months for new infrastructure to come online to help alleviate the demand pressure.

¶4. (C) Dr. Youssef Al Assaf, Dean of Engineering at the American University of Sharjah, told Poloff that he spoke with a manager

at SEWA early October and apparently the main cause for the shortage was a combination of SEWA's delayed payments to its diesel distributors and the impact of the financial crisis. SEWA had been accumulating debts through delayed payments to diesel distributors over the past several years. Prior to the financial crisis, the distributors did not have a problem with delayed payments as they were confident that the Sharjah Government would eventually pay in full. However, distributors found themselves in a situation where they required immediate funding for their suppliers once the financial crisis hit. A chain reaction occurred wherein distributors were not able to supply the diesel to SEWA, which cut SEWA's supply short of the demand during the summer's peak. Al Assaf speculates that the power has been restored because President of the UAE Khalifa bin Zayed stepped in to help after a visit from the Ruler of Sharjah Sultan bin Mohammed. SEWA also increased its rates by 50 percent for both residential and industrial customers. SEWA hopes the increase will go some way towards stemming unrestrained demand and enable back payment of diesel distributors. Despite the increases, the price for power in Sharjah - as throughout the UAE - remains well below market price.

A National Grid?

¶15. (C) Sharjah's power problems have also raised discussion about the need for a nation-wide power grid in the UAE to distribute power as required during peak season. This would be welcomed by the UAE's smaller Emirates, but is not favored by Dubai, where an independent grid has been viewed traditionally as a key element enabling Dubai's ambitious development agenda.

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In an October meeting, Saeed al Tayer, Director of Dubai's Electricity and Water Authority (DEWA) told Consul General that a national grid for the UAE would have only limited benefit. This is because the "peak season" occurs everywhere throughout the UAE at the same time, thus providing no real opportunity for shedding loads in cooler regions to supplement demand elsewhere.

Saeed attributed Sharjah's power supply problems to an inability to bear the added cost of substituting diesel for natural gas as Sharjah's gas supplies have dwindled. (Note: The infrastructure for a national electricity grid has been completed, but power is not yet being distributed. End Note.)

Laborers Protest Outages

¶16. (U) In early September, around 200 construction workers went on strike to protest the ongoing blackouts and brownouts in Sharjah. The laborers complained that they had been without electricity, including air conditioning, in their living accommodations for five days. One of the workers told a reporter, "we are poor people, we work in the scorching sun on building while fasting and at night we go and sleep in the dark without electricity." Blackouts during Ramadan were particularly harsh, some laborers noted, as the lack of electricity prevented them from cooking food to break the fast.

COMMENT

¶6. (C/NF) With temperatures starting to cool off, some of the pressure may be taken off of SEWA, but the underlying roots of this summer's blackouts will remain unresolved. Summer demand is twice that of the winter months and SEWA seems to prefer to meet the demand of the cooler months rather than leave pricy generators idle half the year. Given that funding for such projects remains elusive, we should expect to see similar outages in Sharjah next summer as well. End Comment.

SIBERELL